



Healthcare Group

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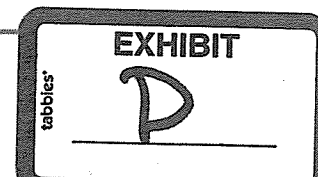
*Swap Pricing Discussion*



January 9, 2006



UBS Financial Services Inc. is a subsidiary of UBS AG



## Negotiation is the most commonly used swap execution process (similar to municipal bond underwriting)

- Most swaps in the municipal market are negotiated with senior managers for the following reasons
  - Relationship — swaps are long-term contracts
    - Most issuers prefer to use counterparties that they have long-term relationships with and have incentive to monitor for on-going opportunities
  - Timing — Negotiated swaps are easier to implement and provide greater execution flexibility
    - Negotiated swaps require a single negotiation vs. multiple negotiations for competitive swaps
    - Negotiated swaps provide an issuer with quick execution capabilities (capture market opportunities)
  - Pricing and Transparency — Swap market is more transparent and liquid than the bond market
    - Issuers often use swap adviser/verification agent to conform fairness of pricing



## **Many large, sophisticated health systems negotiate their swap transactions**

Ascension Health

Bon Secours

Carilion Health System

Catholic Health East

Charleston Medical Center

Cleveland Clinic

Duke University of Medical Center

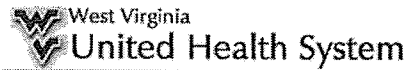
Hospital of the University of Pennsylvania

Northwestern Memorial Hospital

Stanford Hospital and Clinics

University of Maryland Health System

University of Pittsburgh Medical Center



## UBS recommended swap approach

- Negotiated swap with senior manager and hire a swap advisor to verify fairness of pricing
  - Swap advisor and senior manager independently price all swap structures to determine “mid-market”, i.e. the fixed rate associated with each proposed swap structure without any dealer/financial advisory costs
  - WVUHS/UHC, the swap advisor and UBS agree upfront to a fixed spread to “mid-market”
- Blends the advantages of both the negotiated and competitive processes while providing WVUHS/UHC comfort on fairness of pricing

**UBS will provide ongoing services to WVUHS/UHC  
(swap valuation/accounting) at no cost. In addition, UBS will provide  
value-added ideas to reduce future interest expense.**



**UBS is prepared to commit to a swap provider spread of 6 – 7 basis points, which includes all hedging and credit costs**

	<b>Negotiated</b>	<b>Competitive</b>
Swap advisor	0.01%	0.03%
Hedging costs	0.01%	0.01%
Credit charge	0.015%	0.015%
Dealer profit	0.035 – 0.045%	0.01 – 0.02%
Swap provider spread	0.06 – 0.07%	0.035 – 0.045%
<b>Total spread above mid-market</b>	<b>0.07 – 0.08%</b>	<b>0.065 – 0.075%</b>

**UBS is prepared to quote this very aggressive spread due to its long standing relationship with WVUHS/UHC. The typical provider spread for a negotiated swap ranges from 9-11 basis points.**